

## **Kentucky Agricultural Finance Corporation**

### **Minutes of the April KAFC Meeting**

The meeting of the Kentucky Agricultural Finance Corporation was held on April 1, 2005 at 10:00 AM EDT at the Kentucky Farm Bureau Headquarters in Louisville, Kentucky. Michael Judge, designee for Commissioner Farmer called the meeting to order. Mr. Judge then asked Lucinda T. Pease, the Secretary to call the roll.

**Members Present** – Wayne Hunt; Doug Lawson; Billy Joe Miles; Charles Miller; Sandy Ross; Michael Judge, designee for Commissioner Farmer; Annette Crawford-Walters

**Members Absent** - Secretary Robbie Rudolph; Billy Hurd; Jane Jones; Bob Proffitt

#### **Others Present**

**Staff** - Tim D. Hughes; Lucinda T. Pease; David Bratcher; Keith Rogers; Catherine Ball

**Guests**-Kathi Marshall-LRC; Lowell Achtley-LRC; Anna Kendrick-KDA; Dan Hull-Fresh 'N Ready Foods; Steven Carter-Economic Development Cabinet; Larry Snell-KCCD

#### **Notification of Media**

Keith Rogers verified that the media had been notified.

Because there was not a quorum at the beginning of the meeting discussion was held until other board members arrived.

#### **Executive Directors Report**

Keith Rogers presented the Executive Director's report. He announced there would be a presentation from a potential applicant scheduled for 1:00 PM. The board was updated on the details of the budget and how it relates to KAFC. Phase II is the main focus of efforts in the office and we are still working out the details of the \$17,000,000.00, but we will know it's availability after July 1<sup>st</sup>. The new loan limitation was raised to \$5,000,000.00 from \$1,000,000.00.

The bond payment does come from the general fund.

HB 611 required Phase I to fund Phase II if at any time the Phase II payment was not made. In order to make the payment they will utilize \$16,000,000 from the existing Phase I fund and \$11,000,000.00 from the 2005 payment. It bonds the additional to make up the \$114,000,000.00. Funding from the \$87,000,000.00 bond will need to be collected before the payment can be made. This could possibly take 6-8 weeks.

When a farmer signs his check he is signing away his rights to any future payment.

Ms. Catherine Ball gave an update on the status of the appeal.

The company should file their brief on April 11. At this time we can respond or waive our right to respond to get it to court more quickly. Unless there is an unforeseen, we will probably waive our right. It is then up to the Supreme Court to decide when we proceed.

Keith commented that the College of Agriculture had a very good year in regards to the budget.

Wayne Hunt commented about the \$17,000,000 and asked if there was some question as to whether this will be available.

Keith responded that we should have access should we need funding after July 1.

Keith then gave an ADB update

The board met March 18<sup>th</sup> in Frankfort.

The House budget allotted \$15,000,000.00 for year and the Senate about \$12,500,000.00. We ended up with about \$18,000,000.00 from Phase II money not originally factored in.

County funds remain in tact and they should be receiving these funds by the end of April. Environmental cost share funding remained at \$9,000,000 for the two years. KADB created two competitive programs, Agritourism and Farmer's Market, and the first rounds of both have been completed.

Funding of tobacco infrastructure is becoming a hot topic and an application regarding this may be presented at the April meeting. This is a policy issue that will need to be discussed by both boards and there are legislators that are on both sides of the issue.

Several ideas and concepts will be brought to your attention today, that do not need to be voted on at this time. They are the Agricultural Infrastructure Loan Program and the Producer Accelerated Payment Program.

We are looking for ways to make this money accessible and to assist the producers. We need to be creating incentives and loan opportunities for the farmers throughout the state. If we are not successful in putting some money out there in the next 5-6 months this program may not succeed

Tim Hughes updated the board on the overall status.

Previous emphasis was a brick and mortar approach and seemed to focus more on long term investments. He commented that we may need to consider focusing on short term investment in farming and marketing endeavors. We need suggestions from the board on what they desire to be accomplished.

Keith Rogers introduced Larry Snell of KCCD, who was asked to be present in order to explain the Producer Accelerated Payment Program idea.

The co-ops have the idea that producers could benefit from an advanced payment. This could possibly be 70-80% of what they would be receiving and allows the producer to have more cash flow and possibly allow them to expand and/or produce more product. This could also bring in new members which would address a concern expressed by all of the coops.

Tim commented that this is a way to utilize some of the funds this year by loaning them out, but getting the money back at the end of the year.

An application for the Producer Accelerated Payment Program was included in the folders.

KCCD finds that with the exception of Cumberland Farm Products which has their business in order and have an operating line of credit, the main problem is that the product is available in a very limited time period.

Traditionally farmers going to cattle markets, etc. are paid relatively quickly, as opposed to members through a co-op that may not get paid for 4-8 weeks. A lot of markets hold out on their payments for longer periods of time which in turn cuts back on the amount of product a producer could produce.

This would be a "Revolving Loan" type approach.

Annette Crawford-Walters asked if we charge 2%, would the co-op want this passed to producers?

Mr. Snell responded that it would be passed on, but the profits would outweigh this charge.

KR-Green River \$200,000.

LS Looking at getting this as a 2-3 week jump.

Mr. Hunt asked if they know how much money they are going to receive when it is shipped.

Mr. Snell responded that the purchaser signs off on the co-op invoice and that is their payment commitment. The buyer would have a producer credibility rating, and this would control whether they sign the invoice.

Mr. Hunt asked if we would be involved with banks.

Mr. Rogers remarked that there would be cases where a bank is involved. He explained that KPAA would be the administering agency, KAFC would be the lender and the co-op would be the entity receiving the funds.

Mr. Rogers stated that KAFC would only be advancing 70-80% of the price, that the final payment would come later

David Bratcher asked why they haven't they been able to get their line of credit increased so that they could do this internally

Mr. Snell responded that most of the co-ops haven't been able to make the profit to afford this and the banks are not ready to give them further funds.

WH-operating the farmer on the wait.

Mr. Rogers stated that West Kentucky Growers Cooperative is 16% which is taken from the sale to cover the cost of processing, etc. Two percent of the 16 goes into a rainy day fund/set aside that is used for expenses and to pay back the ADB.

Mr. Snell stated that 20-30 % of vegetable growers are making it, and then there are about 40% who aren't quite up to speed, and then of course there are about 15% that really don't need to be in the business. We have realized that the coops really need a dedicated person out there that works directly with the producer to help them realize their downfalls and what is working. Some WKGC farmers have doubled their crops because they feel better that there is a field person available to work with them now.

Billy Joe Miles- In the last two weeks they were asking everyone to share their profits from sweet corn with the ones that lost money last year.

Mr. Snell commented that he is not aware of anyone really making money in sweet corn at all last year.

Mr. Rogers stated that the KADB requirement was that they have 400 acres of commitment and they were at that point in February and are well beyond that now.

Mr. Bratcher asked if any banks were lock boxing receivables.

Mr. Snell was not aware of their accounts receivable being affected.

Mr. Bratcher then asked if they all have a safeguard built in to sell the product.

Mr. Snell stated that was correct. If it is rejected, a sales person will in turn have to find a market for the product.

Ms. Walters asked if we would need something written in because we don't have the capability to do the revolving loan aspect.

Mr. Rogers responded that we can do this, but we don't want to be in charge of controlling the accounts.

One of the purposes for this type of program is that the KADB pushed for the coops to come under one "umbrella" and function together.

There must be a third party administrator. Must be certain buyers that can be approved, as well as producers that qualify.

Mr. Snell commented that a major customer of PAAC was Kroger who would buy and pay in 10 days but only if they could cut 2% off of the invoice.

Mr. Rogers stated that we would not charge anything in addition to the 1-2%.

Mr. Miles asked if we have ever looked at someone out there who runs this sort of business and could come in and oversee.

Mr. Rogers responded that we have talked to people about this.

The Co-Bank study says that what we are doing will not work. We need to work toward vertical coordination.

Based on your direction we will work on a more structured program and bring back a recommendation at the next meeting.

Mr. Hunt asked if there was any clue as to how many dollars this would take.

Mr. Rogers stated that \$1,000,000.00 would probably cover the cost.

If we see this working it could potentially move beyond the co-ops in the future.

The purchaser would send the administrator the check and they would split the payment between our office, the co-op and the producer.

Mr. Snell thanked the board for their time and for listening to the ideas.

Billy Joe Miles made the motion authorizing staff to continue proceedings with this Producer Accelerated Loan Program. It was seconded by Charles Miller. Motion passed without dissent

Ms. Walters asked if we would consider setting the limit at 70 instead of 80?

### **Approval of Minutes**

Wayne Hunt moved and Annette Crawford Walters seconded to approve the minutes as presented. The motion passed without dissent.

### **Presentation**

Tim introduced Mr. Dan Hull for his presentation.

Dan Hull gave the background for his project and its approach to Kentucky agriculture and consumers.

An overview of the project was included in the folder.

### *Discussion*

Mr. Walters asked who's money are you running on now?

Mr. Hull stated mine. The December 31<sup>st</sup> audit shows that \$630,000 has been invested in the project.

Ms. Walters asked how the food is preserved.

Mr. Hull responded that it is by modified atmospheric packaging.

Mr. Hunt asked if he was in production now.

Mr. Hull responded, no not at this time. We have done some testing trials with the project in Ohio.

Mr. Miles asked what he is doing that Kroger can't.

Mr. Hull responded that Kroger could do this, if they were to build a factory, however, the small and medium sized grocers couldn't afford to do such.

Kroger is one exception in that they own the bakery, salad, etc. but many do not.

Mr. Miles inquired about the appearance of the product.

Mr. Hull stated that it's in a small tray much like other commercial dinner products. He added that they are willing to put the origin on the package so consumer's know the product was made in Olive Hill, or wherever they locate.

Mr. Judge asked what efforts have been made to purchase locally.

Mr. Hull responded that they have been to over 200 meetings and 20 different counties and have worked with the Black Farmers Association from Western KY. They have talked with Green River Cattle Company and

understand they have some difficulty in selling some of the cuts such as hamburger, which they need to make meatballs, meatloaf, etc.

After talking to Goodinview Farms, they made note that they discard a large proportion of heads and other products from shrimp, that they could make use of in stocks.

Doug Lawson asked to know the amount of this facility.

Mr. Hull responded that they would be getting a sweetheart of a deal on this facility. The building, equipment, and land would only be \$4,000 per month

Mr. Lawson questioned the origin of the money invested.

Mr. Hull responded that Hickey and Co is the initial investor.

Mr. Lawson asked if this amount will cover all costs, equipment, etc.

Mr. Hull responded that it will for the short term

Mr. Hunt asked where the equipment is that we would get the lien on.

Mr. Hull responded that it is located in the facility in Boyd Co.

Tim Hughes added that the facility owner would become one of the shareholders. The gentleman was building the company as a spec with the equipment in place for a deal with Rocco Foods of West Virginia.

Mr. Hunt asked if he had worked/talked with banks about financing.

Mr. Hull responded that no, he has spoke with banks but not about financing.

Tim Hughes told the board that staff needs direction as to whether to seek this out and how much time to spend working with Mr. Hull

Mr. Hunt- I think the concept is good, but I think we definitely have to know more about it.

Mr. Hull responded that they have been working with various officials in Northeastern Kentucky. He said he has been asked why he wants to buy Kentucky products and not others and he responded that if he buys from California, by the time he gets the produce it is at least 6 days old, whereas if he buys from Kentucky, it can be there within the day.

Mr. Hughes commented that his interest was struck a few weeks ago regarding an article in the Ashland paper about a gentleman meeting with local farmers about a future processing plant. What I would like for the board to decide is whether we want to get the loan committee together and work with Mr. Hull on this project.

## **New Business**

Current KAFC available fund balance: \$3,053,832.93 as of 3/14/05

Less \$1,000,000.00 commitment to Alltech

Link Deposit Agriculture Loans Outstanding: \$5,919,690.05 as of 2/28/05

## **Old Business**

Alltech Loan Update – it looks as though we will close the last of April or first of May and should have an update on the legal side at that time.

## **Possible Loan Programs**

Marketing Assistance Loan Pool-morning discussion

### **Agricultural Infrastructure Loan Program**

This is a concept idea to get support or nonsupport and is focused on the farmer. Programs have been revisited to figure out what can be done to reach more farmers. This looks to be more useful and successful.

This would only fund a maximum of 50% of the project, and would be available to tobacco dependent producers only.

Consideration has been made of those persons transitioning away from tobacco production and those that are looking towards building infrastructure.

Mr. Hughes felt that politically this will raise some eyebrows.

Mr. Hunt stated that one of the big problems is that a young farmer couldn't previously get funded and if we have stipulations on having a buyout contract, we eliminate the Young Farmer program.

Mr. Rogers stated that some legislators have commented that if KADB puts this money back into tobacco it will not be here any longer.

Mr. Miles asked what was their reasoning for this.

Mr. Rogers replied that it was designed to transition away from tobacco.

Some legislatures have commented that we already have enough tobacco infrastructure. He added that this is really infrastructure. He has met with the potential KY Dairy Council and there is tremendous excitement and staff is meeting with the swine producers on the 14<sup>th</sup> in regards to this type of



program. This will allow an older or young farmer to expand or get into the game with this infrastructure.

Mr. Lawson asked if this was being done as participation with a bank.

Mr. Rogers responded it would be done both ways depending upon the bank. We prefer to keep that option open.

Mr. Hunt commented that the the mentality of producers needed to be changed. There are no restrictions anymore and it doesn't matter if you are Eastern or Western Kentucky you can grow all you want. We are going to see more technology focused in tobacco production. Companies are already telling producers how to grow and specifications on bale size, etc.

Mr. Rogers stated that language was inserted based upon previous tobacco regarding loan limits

Mr. Miles stated that we are seeing people who were previously unable to get in, having that opportunity now.

Ms. Walters said maybe we could change the limit and they have to show one year of tobacco production and we could base that on deciding if they can make it.

Mr. Hunt added that we also limit that to also providing a contract, because without that they can't sell.

Charles Miller stated that Phillip Morris is working today to contract in Pennsylvania. This is a form of agriculture that will always have an impact on the state and we should do all possible to keep that up.

Mr. Miles commented that we are seeing a totally different mindset across the state and a lot of contracts going unfulfilled

Mr. Rogers commented that the consensus seems to be that staff put together a document that explains the terms of the loan that will be presented next meeting. We are leaving it pretty broad and at 2%.

Mr. Rogers stated that there are a core group of producers that are looking for a small push to get them out there and go. And this is the incentive we can use for this.

#### Breeding Livestock Loan Program

Mr. Hughes stated that there is a lot of interest in expanding cow herds and asked the board if they wanted to explore this endeavor.

Mr. Miller felt the real area for expansion and profitability is on the commercial cow side. If this is developed primarily on the wants of Creekstone, it is not fair across the board. There is room for expansion and

the forage base in this state is not being utilized. We will need to spend 2-3 more years on the calf side to build us to where we can be.

Mr. Hughes responded that Creekstone is only used as an example. Other companies want the same thing, and that is the opportunity for retained ownership.

Mr. Miller said if we do restrict to retained ownership we will hear a loud cry from the marketing industry in the state. The guys not interested in tobacco production will lean this way and many have already begun getting into cattle.

Mr. Bratcher asked if we are better off to focus on backgrounders rather than heifers?

Mr. Rogers commented that there is a lot of interest in this from across the state from counties.

Mr. Miles said he felt the beef industry or the dairy industry will be our future and the tobacco is a one time deal.

Mr. Miller urged the need to be cognizant of what we are trying to achieve. Need to help producers in producing a quality animal. For example the genetics program gives EPD's to show the limits and stipulations.

Mr. Rogers said staff would be working with the cattlemen's groups to give us the direction we need.

Loan applications (Update folder)

### **Other Business**

Ms. Ball amended her earlier statement in that May 16<sup>th</sup> will be the appeal for the brief in North Carolina????

The next KAFC meeting is tentatively scheduled for Friday May 6<sup>th</sup>.

### **Adjournment**

The motion to adjourn was made by Charles Miller and seconded by Doug Lawson. Motion passed without dissent.

The meeting was adjourned at 3:15 pm.